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RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY

RUEHC/DEPT OF LABOR WASHDC PRIORITY

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STATE FOR WHA/MEX, WHA/EPSC, EB/IFD/OMA, EAP/CM, EAP/EP

STATE FOR EB/ESC MCMANUS AND IZZO

USDOC FOR 4320/ITA/MAC/WH/ONAFTA/ARUDMAN

USDOC FOR ITS/TD/ENERGY DIVISION

TREASURY FOR IA (ALICE FAIBISHENKO)

DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND ALOCKWOOD

STATE PASS TO USTR (EISSENSTAT/MELLE)

STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)

NSC FOR DAN FISK

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SUBJECT: MEXICO ECONOMIC NOTES, JANUARY 25 - FEBRUARY 1

REF: MEXICO 483

Sensitive but unclassified, entire text.

Summary

¶11. (SBU) Commerce Secretary Gutierrez discussed
criminalization of
commercial disputes, the current tortilla crisis, conformity
assessment,
competitiveness, the Security and Prosperity Partnership
(SPP), and border
cooperation with Secretary Sojo of Economy. Gutierrez
learned of a GOM
interest in U.S.-Mexico Open Skies talks in 2008 from
Secretary Tellez of

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Communications and Transport. Tellez raised preclearance in
Cancun and
making the Tijuana airport binational. On telecoms,
Gutierrez received a
realistic assessment of the difficulties liberalizing the
sector. Secretary
Kessel told industry insiders Mexico would seek technical
associations with
foreign firms to help develop deep water oil production, but
stopped short of
calling for constitutional change. Secretary Sojo signed a
Customs
Cooperation Agreement with USTR Schwab in Davos January 26.
End Summary.

Gutierrez and Sojo Discuss Tortillas, Disputes, Border

¶12. (SBU) Commerce Secretary Gutierrez met Mexican Economy
Secretary Eduardo

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Sojo February 1. Sojo said that the GOM is investigating what may or may not have happened to raise corn and tortilla prices in Mexico, but did not expect a U.S. firm to be singled out. Gutierrez raised GE/NBC's problems with TV Azteca in the context of U.S. concerns over the criminalization of commercial disputes. The two secretaries also agreed to set up a bilateral working group to develop a border agenda in the next few months. Gutierrez and Calderon also met to discuss a number of bilateral commercial issues. Complete reporting cables will follow.

U.S. - Mexico Aviation Issues

¶3. (SBU) Secretary of Communications and Transportation Luis Tellez met with Secretary of Commerce Carlos Gutierrez on February 1. In

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response to Gutierrez asking whether the Mexicans would be interested in such talks, Tellez addressed the idea of negotiating an Open Skies agreement between the United States and Mexico, saying that the GOM could be ready to discuss the agreement in 2008. Tellez said that the first step toward Open Skies would be the privatization of Aeromexico, which should take place in 2007, and to see what effects privatization has on the aviation market in Mexico. Tellez and Under Secretary of Transportation Manuel Rodriguez also

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raised the idea of establishing CBP preclearance in Cancun, an issue that former president Fox and President Bush discussed in ¶2006. Tellez mentioned Mexico's hope to make the Tijuana airport binational, though he noted that Tijuana would need a new airport terminal to make this more realistic.

Mexico Telecom Topics

¶4. (SBU) In the same meeting, Tellez expressed the Calderon administration's commitment to encouraging competition in the telecom market, but said that it is a "very hard goal" to meet. Under Secretary Rafael del Villar told Secretary Gutierrez that Mexico has a long way to go to match US telecom rates and that Mexico must work through foreign investment restrictions in this sector, but that the SCT faces difficult political issues. Tellez and del Villar also mentioned the current debate between the SCT and Cofetel, saying that Cofetel "is neither as pro-competitive nor as independent as it should be."

Energy Secretary:Foreign Tech Associations

¶5. (SBU) In a speech to energy industry representatives in Mexico January 31, Energy Secretary Georgina Kessel emphasized that Mexico was interested in developing "technical associations" with foreign companies to develop deep water oil production, but when asked whether this meant that the Calderon administration would seek a change to Article 27 of the Mexican Constitution, she demurred. On the same program, Carlos Morales Gil, CEO of Pemex Exploration and Production rejected reports over the past two weeks that the Cantarell field was declining faster than expected and presented a production forecast showing the field declining by 13 percent annually through 2015.

A Big Step Toward Textiles Cumulation

¶16. (SBU) U.S. Trade Rep Sue Schwab and Mexico's Secretary of Economy Eduardo Sojo took a step toward implementing the textiles cumulation provisions in the U.S.-Central America Free Trade Agreement (CAFTA) by signing a Customs Cooperation Agreement January 26 in Davos. Cumulation would allow Central American apparel makers who use Mexican textile inputs to still qualify for duty-free export to the U.S. market under the CAFTA. The Customs Cooperation Agreement would allow customs officials to perform inspections to verify the origin of the textile inputs of CAFTA apparel exports. Before these cumulation provisions can take effect, Mexico must first reach an agreement

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with the Central Americans that would also permit them to export duty-free to Mexico apparel using U.S. textile inputs. Mexican and Central American trade negotiators are meeting January 30-31 to work out just such an agreement. The Secretary of Economy issued a press release (echoed in a number of news publications) declaring that cumulation would be a major boost for Mexico's textiles sector as it faces rising competition from Asia in general and China in particular. See upcoming septel for a broader look at the impact of China's economic rise on Mexico.

Union Leader Suspicious of U.S.

¶17. (SBU) According to Francisco Hernandez Juarez, the head of the Telephone Workers union and a leader of the National Workers Union (UNT), many of the major unions Mexico are suspicious of the US Embassy and have preferred to keep their distance from Mission Mexico. Hernandez attributed this attitude to these organizations' belief that the USG is not interested in worker rights. He also added that many union members and ordinary Mexicans believe that last year's approval by congress of the construction of a wall along parts for the U.S./Mexico borders is an indication that the U.S. is not really interested in good neighborly relations with Mexico.

Remittances Break Record

¶18. (SBU) Remittances to Mexico reached USD 23,1 Billion in 2006 exceeding last years USD 20 Billion figure. According to an Interamerican Development Bank (IDB) survey 73 percent of the 12 million Mexicans living in the U.S. sent funds to Mexico. The average Mexican migrant earned USD 900 per month, 6 times more than he earned before migrating.

2006 Not a Good Year for Mexican Tourism

¶19. (SBU) Mexico was the only country in Latin America to experience a decrease in international tourist, according to figures published last week by the World Tourism Organization. Secretary of Tourism Rodolfo Elizondo confirmed that 550 thousand fewer tourist visited Mexico last year than in 2005. Political upheaval caused by the elections and Oaxaca, fallout from Hurricane Wilma, and the dollar's weakness created a perfect storm to reduce the number of travelers. The Mexican government is optimistic that the number of tourists will rebound in 2007. They are likely right if WHTI continues to have a minuscule effect and the political situation remains under control.

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Calderon Pounds Pavement for European Investment

¶110. (SBU) Calderon completed a 6-day trip to Europe this week with stops in Berlin, Madrid, London and the World Economic Forum in Davos, Switzerland. The overarching theme of Calderon's

European trip was investment promotion. In each stop he met with multinational business leaders and promoted Mexico as a safe place for foreign investment. The Economist study naming Mexico as the 5th largest world economy by 2040 was repeatedly cited and Calderon assured investors that his administration would continue the development advances necessary to make it a reality. See (reftel) for political analysis and media reaction to the visit and upcoming septel for the investment message.

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